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IN THE

Supreme Court of the United States

OCTOBER TERM, 1946

NO. 11.

ALMA MOTOR COMPANY, Petitioner,

v.

THE TIMKEN-DETROIT AXLE COMPANY,
Respondent.

UNITED STATES OF AMERICA, Intervenor.

SUPPLEMENTAL BRIEF OF AMICI CURIAE.

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UNITED STATES OF AMERICA, Intervenor.

SUPPLEMENTAL BRIEF OF AMICI CURIAE.

On May 21, 1945, the Court entered the following order in the above entitled case (65 S. Ct. 1190):

"This case is ordered restored to the docket for reargument. Counsel are requested to give special consideration in their briefs and argument to the following questions:

"1. Whether the Royalty Adjustment Act, 56 Stat. 1013, 35 U.S.C.A. § 89 et seq., is constitutional under the Fifth Amendment as applied to royalties due from respondent, Timken-Detroit Axle Company, to petitioner for the patented devices manufactured, sold, and delivered to the Government (a) before the enactment of the Act and (b) before the promulgation of the departmental royalty order.

"2. Whether sec. 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, saves to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent, Timken-Detroit Axle Company."

In this supplemental brief we shall confine our arguments to the questions stated in the foregoing order and similar questions suggested by them, and shall not elaborate further on the arguments contained in our brief and reply brief as *amici curiae* filed before the argument in this case at No. 806 October Term, 1944. However, we of course do not mean to recede from any of the positions taken in those arguments, which we shall briefly repeat before answering the questions stated in the Court's order.

We maintain that the Royalty Adjustment Act cannot be justified under the patent power, since its effect is not to secure to inventors the exclusive right to their discoveries but to reduce or destroy the value of that right (brief of *amici curiae*, No. 806, October Term, 1944, pp. 3-4); that, though it is an exercise of the war power, it must nevertheless meet the requirements of the Fifth Amendment (id., pp. 4-5); that the Act and the order made thereunder in this case violate the Fifth Amendment by taking property without just compensation, since Congress has refused to pay the value of the contract right to royalties which it has taken for the benefit of the United States, the value of that right being the amount which could be obtained for an assignment of it by an owner willing to sell it from a purchaser willing to buy it (id., pp. 5-32); that the Act and the order made

thereunder deprive the petitioner of property without due process of law, since the power of eminent domain cannot be used to raise revenue by taking a right to money, but only to take property which is needed for *use*, not for revenue (id., pp. 33-43); that the Act was not intended to impose a tax, since it did not originate in the House of Representatives (id., pp. 43-44); and that, if the Act imposed a tax, it would be so arbitrary and capricious in the selection of the subjects of taxation, to-wit, certain licensors whose royalties are believed to be unreasonable by the head of a department or agency of the Government to the exclusion of all other persons, as to deprive the proposed taxpayers of property without due process of law (id., pp. 44-46).

In our reply brief we showed that the effect of the Act was to take for the United States not a new license under the petitioner's patent, but the right to receive the royalties under its contract with the respondent, which were to be paid over to the Treasurer of the United States (pp. 1-10, 16), and that the Act *takes* the value of the license agreement for "the benefit of the Government" and does not merely *reduce* that value (pp. 11-14).

The arguments which we have made in respect to the Royalty Adjustment Act, if they are sustained by the Court, will of course dispose of the need of answering the questions to which consideration is invited in the order of the Court, for they show that the Act is unconstitutional under the Fifth Amendment as applied to royalties due for patented devices whether they are manufactured, sold and delivered before or after the promulgation of the Royalty Adjustment Order. If this is so, it would be foolish to remit petitioner to a suit to be brought in the Court of Claims, when its recovery

in that court would have to be the full amount of the royalties stipulated to be paid under its contract with the respondent but paid instead to the Treasurer of the United States. The purpose and effect of the Act is to reduce royalties where they are believed to be unreasonable or excessive, and the reduction is to "inure to the benefit of the Government"; but the reduction cannot inure to the benefit of the Government if the Government is not entitled to keep the amount of it without paying "the full and perfect equivalent in money" of the money which has been taken.

With this preliminary statement of our position we proceed to answer the Court's questions.

Summary of Argument.

I.

The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act.

The theory of the Government that the Royalty Adjustment Act is valid as in effect authorizing "the taking of a new license under patented inventions" cannot apply to royalties for devices sold and delivered to the Government before the enactment of the Act, since the Government needed no license to use such devices.

The argument for the Government that the contract between the petitioner and the respondent was merely "frustrated" is answered by the fact that this contract was expressly kept alive and was the basis of the claim of the Government under the Royalty Adjustment Order.

The theory of the Government that the Royalty Adjustment Act is a valid price-fixing measure is answered by the fact that it is not a price-fixing regulation but a provision for taking into the Treasury of the United States the whole or a part of the amount to which the licensor is entitled, without changing the price.

Since the Act attempts to take the right to royalties, it cannot stand unless it satisfies not merely the requirement of the just compensation clause (discussed in our original brief as *amici curiae*), but the requirement of the due process clause.

The authorities under the due process clause condemn legislation which operates retroactively so as to divest vested property rights, acting directly to that end and not as an incident of a broad general policy.

II.

The Act should not be construed retroactively to apply to royalties due from respondent to petitioner for devices delivered to the Government before the enactment of the Act.

Section 1 of the Act shows that it is to take effect only from the date of enactment, for it states that "whenever an invention, whether patented or unpatented, *shall* be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having a right to grant licenses thereunder," the royalties may be adjusted.

Section 2 of the Act provides that compensation shall take into account the conditions of wartime production. It is applicable to royalties accruing by reason of production after the date of the Act, but would not

be applicable to all royalties due for manufacture and sale prior to the enactment of the Act, since certain of those royalties were earned in peacetime.

Section 7 of the Act, the only retroactive provision, refers to royalties charged or chargeable for devices delivered before the effective date of the *notice* provided for in Section 1 but does not cover royalties due for devices delivered before the enactment of the Act, in view of the prospective language of Section 1 and of the Act in general.

To apply the Act to royalties due before its enactment would run counter to the uniform current of decisions in this Court for the past one hundred and forty years.

III.

If the Act is applied to royalties due for devices delivered after the enactment of the Act but before the promulgation of the departmental royalty order, it would violate not merely the just compensation clause (as shown in our principal brief) but also the due process clause, because the right to these royalties had vested before the belief of the department heads that they were excessive was ascertainable or had even been formed.

Congress did not intend that the Act should apply to royalties due at the time of the notice as to belief of unreasonableness if the Act could not apply to royalties due at the time of the enactment. Section 7 states the applicability of the Act in two separate sentences, the first applying it to royalties on supplies, equipment, or materials to be delivered after the effective date of the notice, and the second applying it to royalties on sup-

plies, equipment, or materials already delivered but not paid for prior to the effective date of the notice. Congress thus indicated its desire to have the applicability of the Act to royalties between the date of the enactment and the date of the notice stand or fall on the constitutionality of the application of the Act to royalties due at the date of enactment.

IV.

Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, does not save to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent.

The only remedy available to petitioner under Section 2 is inadequate, because it does not permit the petitioner to recover the royalties stipulated to be paid under its contract. These royalties do not take into account the conditions of wartime production; and the respondent as a licensee cannot contest the validity of the patent under which it is licensed.

That the Court of Claims cannot give petitioner anything more than Section 2 allows clearly appears from a long line of cases which hold that suits against the Government can succeed only subject to the restrictions and limitations imposed by the Act of Congress permitting the remedy.

The Court of Claims cannot disregard the limits set by the Royalty Adjustment Act upon the recovery by the petitioner and give it under any other act the full compensation guaranteed to it by the Constitution.

If the petitioner should sue under the Royalty Adjustment Act, it would be foreclosed from raising the

question of the unconstitutionality of the Act under which it had sued.

Any judgment of the Court of Claims would have the effect either, on the one hand, of rendering the Act nugatory by allowing the recovery of the full amount of the royalties stipulated or, on the other hand, of unconstitutionally denying the petitioner its right to just compensation. This Court, therefore, should pass on the question of the constitutionality of the Act and hold that it is invalid under the Fifth Amendment.

1(a). The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act.

Three theories have been advanced by the Government to sustain the constitutionality of the Royalty Adjustment Act. We shall deal with them in turn.

The New License Theory.

The first theory of the Government is that the Royalty Adjustment Act is valid under the federal power of eminent domain, since it "in effect authorizes the taking of a new license under patented inventions, in return for fair and just compensation, whenever the consensual license already held by the Government contractor or subcontractor provides for royalties which the Government deems to be unreasonable and excessive under wartime conditions" (brief for the United States, p. 11). In our reply brief we have shown that not only

the language of the Act but also its legislative history and the order made under it and complained of in the case at bar show that the Act has nothing to do with the appropriation of a new license, but applies only to royalties, that is, money, due or to become due under existing license contracts.

What would be the use to the Government of a license as to devices sold and delivered to it before the enactment of the Act? A license by the owner of a patented device is nothing more than a consent to the use of the patent in making, using, or selling the device. It is "a mere waiver of the right to sue" for an injunction against, or damages for, infringement. *De Forest Radio Tel. Co. v. United States,* 273 U. S. 236, by Mr. Chief Justice Taft at pp. 241-242; *General Talking Pictures Corp. v. Western Electric Co.,* 304 U. S. 175, by Mr. Justice Butler at p. 181. After the patented devices were sold and delivered to the Government, it needed no license to use them. As this Court said by Mr. Justice Miller in *Adams v. Burke,* 17 Wall. 453, at p. 456:

> "The right to manufacture, the right to sell, and the right to use are each substantive rights, and may be granted or conferred separately by the patentee.
>
> "But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular

machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."

It is unnecessary to labor the point, because it is too clear for argument that as to the devices sold and delivered to the Government before the enactment of the Act there is no room whatever for the application of the Government's new license theory. It may be of interest, however, to note that the principle of *Adams v. Burke* has been applied in no less than eleven other decisions of this Court: *Bloomer v. McQuewan*, 14 How. 539, 549-550; *Chaffee v. Boston Belting Co.*, 22 How. 217, 223; *Bloomer v. Millinger*, 1 Wall. 340, 351-352; *Mitchell v. Hawley*, 16 Wall. 544, 548; *Morgan Envelope Co. v. Albany Perforated Wrapping Paper Co.*, 152 U. S. 425, 432; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659, 666; *Bauer v. O'Donnell*, 229 U. S. 1, 17-18; *United States v. General Electric Co.*, 272 U. S. 476, 489; *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 457; *United States v. Univis Lens Co.*, 316 U. S. 241, 250; *United States v. Masonite Corp.*, 316 U. S. 265, 277-278.

But let the Government call what it did the taking of a license if it will; it will not thereby obscure the plain, bald fact that under the purported authority of the Royalty Adjustment Act it took the petitioner's right to receive money from the respondent and ordered the latter to pay the money instead to the Treasurer of the United States. The whole argument as to the taking of a license by the Royalty Adjustment Act is nothing but a darkening of counsel by words that ignore what the Act says, what it was intended to do, and what was actually done under it. What was done under the Act —and rightly done if it is construed to be retroactive and

held to be constitutional—was to take money already due and payable and the right to receive more money in future if use should be made of the license by the respondent in the manufacture of devices for, or sale of them to, the United States.

The Frustration Theory.

The argument for the Government that the contract between the petitioner and the respondent was merely "frustrated," based on *Omnia Commercial Co. v. United States*, 261 U. S. 502, runs in the teeth of what the Act calls for and what was done under it, equally with the argument based on the supposititious license. The license contract between the parties was not terminated, but was expressly kept alive and was the basis of the claim of the United States under the Royalty Adjustment Order. The benefit of the royalties under that contract was taken from the petitioner by the United States, including the right to payments to be made on account of use prior to the order. As the learned judge who wrote the opinion of the court below said (R. 116-117):

> "What we have here is a taking of private property for public use. The property involved is the patent owner's royalty rights under the license with the manufacturer."

Nothing belonging to the licensee was taken. The right of the licensor was taken, without providing for the payment to him of the just compensation secured to him by the Fifth Amendment. The Government sought to substitute itself for the licensor as a recipient of royalties, and it insists that it cannot be forced to substitute itself for the licensee as a payer of royalties. We do not

contend that it must substitute itself for the licensee as a debtor. All that the Constitution requires is that it give to the dispossessed licensor the full amount which the licensee would have had to pay it.

At the first oral argument the Government appeared to take the position that the contract was executory, based on the fact that under paragraph (VIII) of the license contract here involved (R. 90) the licensor agreed that it would, within sixty days after service on it of notice in writing of unlicensed manufacture by others of transfer cases within the scope of the agreement, institute and diligently prosecute suits to enjoin such manufacture. It may be pointed out in passing that the Act is in no way limited to the adjustment of royalties under license contracts where the licensor is subject to such a duty; and there is no reason to suppose that Congress would wish it to be applicable in such a case if it could not be applied equally to the cases of royalties due under other license contracts. The license theory must stand or fall on a proper interpretation of the Act as it is drawn and not on a rewriting of its terms so as to make it apply only to the particular license contract here involved. But even if we look only to the terms of that contract, the argument of the Government is erroneous; for it is apparent that the royalties fixed are to be paid, under paragraph (IV) (R. 89), semi-annually without regard to the performance or nonperformance of the agreement to prosecute unlicensed manufacturers. It is only if the licensor neglects or declines to institute and actively prosecute suits, or the patent claims are held invalid in such litigation, that the licensee is to be relieved of its obligations to pay royalties (R. 90). In the petitioner's license contract, as in the simplest form of license contract, once articles had been manufactured

and sold under it, the contract, so far as those articles were concerned, was completely executed save for the payment of royalties.

The Price-Fixing Theory.

Another theory of the Government is that the Royalty Adjustment Act is a valid price-fixing measure and that "the Act may validly apply to royalties accruing prior to its passage, the result being merely the reduction in the value of the license agreement" (brief for the United States, p. 13). In our reply brief we have called attention to the fact that the Act is not a price-fixing regulation; that it does not adjust generally royalties fixed by license agreements for the benefit of whoever may be concerned; that under this Act, whenever a reduction in royalties is effected, it "shall inure to the benefit of the Government by way of a corresponding reduction in the contract price * * *, or by way of refund" (Section 4); and that the orders made under the Act direct that the amount of the reduction (in the case at bar, the whole amount of the royalties) shall be paid over to the Treasurer of the United States. It is one thing for the Government, as a disinterested party, to decide that the interest of the people calls for a regulation of prices at the expense of invalidating contract rights; it is quite another thing for the Government, as an interested party, to *take* contract rights to prices for its own benefit. The latter thing it cannot constitutionally do without paying "the full and perfect equivalent in money of the property taken": *United States v. Miller*, 317 U. S. 369, at p. 373. And the latter thing is exactly what was done in the case at bar, whether it is called price-fixing or by any other euphemism.

Unconstitutional Taking of Vested Rights.

Since the Royalty Adjustment Act, whether it be called a licensing act or a price-fixing act, attempts to take the right to royalties, it cannot stand unless it satisfies not merely the requirement of the just compensation clause (which we submit it does not) but also the requirement of the due process clause of the Fifth Amendment. We submit that to apply it so as to "adjust" royalties due to the licensor before its enactment would violate the due process clause, under a long line of cases holding that a statute violates that clause if it divests vested property rights, acting directly to that end and not as an incident of some broader general policy. "The general rule," said Mr. Chief Justice Hughes in *Graham v. Goodcell,* 282 U. S. 409, at p. 426, is "that it is not consistent with due process to take away from a private party the right to recover the amount that is due when the act is passed."

In *Steamship Co. v. Joliffe,* 2 Wall. 450, a pilot suing under a California statute which allowed him to collect one-half pilotage fees when his services were refused was met by the defense that, the act having been repealed, he could not maintain his action. On this point the Court, speaking by Mr. Justice Field, said at pp. 457-458:

> "The claim of the plaintiff below for half-pilotage fees, resting upon a transaction regarded by the law as a *quasi* contract, there is no just ground for the position that it fell with the repeal of the statute under which the transaction was had. When a right has arisen upon a contract, or a transaction in the nature of a contract authorized by statute, and has been so far perfected that nothing remains to be

done by the party asserting it, the repeal of the statute does not affect it, or an action for its enforcement. It has become a vested right which stands independent of the statute. And such is the position of the claim of the plaintiff below in the present action: the pilotage services had been tendered by him; his claim to the compensation prescribed by the statute was then perfect, and the liability of the master or owner of the vessel had become fixed."

So in the case at bar the petitioner's claim to royalties prescribed by the license agreement for devices sold before the enactment of the Royalty Adjustment Act was perfect, and the liability of the respondent had become fixed.

In *Koshkonong v. Burton*, 104 U. S. 668, the question was as to whether a judgment should allow interest upon the amount of each coupon of a municipal bond from its maturity, under the authority of an act passed in 1859. In 1865 the highest court of the state held that the bondholder was entitled to interest upon interest. In 1868 the legislature passed an act declaring that it was the meaning of the act of 1859 and of all other laws prescribing the rate of interest that interest should not be compounded unless an agreement to that effect was clearly expressed, and amended the act of 1859 so that interest upon the bonds should not be construed to bear interest. This Court held the later act unconstitutional, saying by Mr. Justice Harlan at pp. 678-679:

"It was said by Chancellor Walworth, in *Salters v. Tobias* (3 Paige (N. Y.), 338, 344), that, 'in England, where there is no constitutional limit to the

powers of Parliament, a declaratory law forms a new rule of decision, and is valid and binding upon the courts, not only as to cases which may subsequently occur, but also as to pre-existing and vested rights. But even then the courts will not give it a retrospective operation, so as to deprive a party of a vested right, unless the language of the law is so plain and explicit as to render it impossible to put any other construction upon it. In this country, where the legislative power is limited by written constitutions, declaratory laws, so far as they operate upon vested rights, can have no legal effect in depriving an individual of his rights, or to change the rule of construction as to a pre-existing law. Courts will treat such laws with all the respect that is due to them as an expression of the opinion of the individual members of the legislature as to what the rule of law previously was. But beyond that they can have no binding effect; and if the judge is satisfied the legislative construction is wrong, he is bound to disregard it.' When counsel, in *Ogden v. Blackledge* (2 Cranch, 272, 277), announced that, to declare what the law is, or has been, is a judicial power, to declare what the law shall be is legislative, and that one of the fundamental principles of all our governments is that the legislative power shall be separate from the judicial, this court interrupted them with the observation that it was unnecessary to argue that point. Prior to the passage of the act of 1868, the highest judicial tribunal of the State had adjudged, that when a sum was to be paid at a specified time as interest, that sum bore interest from that time until paid. This was an adjudication as to what was the local law in that

class of cases. And the utmost effect to be given to a subsequent legislative declaration, as to what was the proper meaning of the statutes which had thus been the subject of judicial construction, would be to regard it as an alteration of the existing law in its application to future transactions, especially where, as was the case in the act of 1868, that declaration was accompanied by a distinct provision, in terms, changing the pre-existing law. In *Stockdale v. Insurance Company* (20 Wall. 331), this court, speaking by Mr. Justice Miller, said, that 'both on principle and authority it may be taken to be true, that a legislative body may, by statute, declare the construction of previous statutes so as to bind the courts in reference to all transactions occurring after the passage of the law, and may, in many cases, thus furnish the rule to govern the courts in transactions that are past, provided no constitutional right of the party concerned is violated.' Sedgwick, Contr. Stat. and Const. Law (2d ed.), pp. 214, 227; Cooley, Const. Lim. 93, 94. It is clear, therefore, that neither the act of 1868 nor the provision quoted from the revision of 1878, which is but a continuation of the second section of the act of 1868, can be deemed applicable to the case before us. The contract between the town and the holders of its securities was entered into prior to those enactments, and the rights of the parties must necessarily be determined by the law as it was when the contract was made. It was not within the constitutional power of the legislature to take from the plaintiff his right, whether arising on express or implied contract, to interest upon interest, if, when the coupons were executed and delivered, he,

or the then holder thereof, had such right, under the law of the State."

Ettor v. City of Tacoma, 228 U. S. 148, was a case in which the Court held that the repeal of a statute which had been construed as giving consequential damages so as to affect rights obtained thereunder was a deprivation of property without due process of law as guaranteed by the Fourteenth Amendment. The Court, speaking by Mr. Justice Lurton, said at p. 156:

> "The necessary effect of the repealing act, as construed and applied by the court below, was to deprive the plaintiffs in error of any remedy to enforce the fixed liability of the city to make compensation. This was to deprive the plaintiffs in error of a right which had vested before the repealing act, a right which was in every sense a property right. Nothing remained to be done to complete the plaintiffs' right to compensation except the ascertainment of the amount of damage to their property. The right of the plaintiffs in error was fixed by the law in force when their property was damaged for public purposes, and the right so vested cannot be defeated by subsequent legislation."

In *Forbes Pioneer Boat Line v. Board of Commissioners,* 258 U. S. 338, a state legislature declared by special act that tolls paid by the plaintiff had been properly collected, although the plaintiff had sued to get back such tolls, which at the time of their collection had been unlawfully exacted. The Court held such action on the part of the legislature unconstitutional under Article I, Section 10, of the Constitution and the due process clause of the Fourteenth Amendment. Mr. Justice Holmes, speaking for the Court, said at p. 339:

"Stripped of conciliatory phrases the question is whether a state legislature can take away from a private party a right to recover money that is due when the act is passed. The argument that prevailed below was based on the supposed analogy of *United States v. Heinszen & Co.*, 206 U. S. 370, (*Rafferty v. Smith, Bell & Co.*, 257 U. S. 226), which held that Congress could ratify the collection of a tax that had been made without authority of law. That analogy, however, fails. A tax may be imposed in respect of past benefits, so that if instead of calling it a ratification Congress had purported to impose the tax for the first time the enactment would have been within its power. *Wagner v. Baltimore*, 239 U. S. 207, 216, 217. *Stockdale v. Atlantic Insurance Co.*, 20 Wall. 323. But generally ratification of an act is not good if attempted at a time when the ratifying authority could not lawfully do the act. *Bird v. Brown*, 4 Exch. 786, 799. If we apply that principle this statute is invalid. For if the Legislature of Florida had attempted to make the plaintiff pay in 1919 for passages through the lock of a canal, that took place before 1917, without any promise of reward, there is nothing in the case as it stands to indicate that it could have done so any more effectively than it could have made a man pay a baker for a gratuitous deposit of rolls."

If a state legislature cannot take away from a private party a right to recover money that is due when the act is passed, how can Congress take away from a private party a right to receive royalties that were due when the Royalty Adjustment Act was enacted?

Danzer & Co. v. Gulf & Ship Island R. R. Co., 268 U. S. 633, was a case in which the Interstate Commerce Com-

mission attempted to apply a section of the Transportation Act of 1920 retroactively so that a claimant would be permitted to sue certain carriers, despite the fact that under a statute of limitations their liability was destroyed. The Court held, speaking by Mr. Justice Butler, at p. 637:

> "Section 206(f) will not be construed retroactively to create liability. To give it that effect would be to deprive defendant of its property without due process of law in contravention of the Fifth Amendment."

Coombes v. Getz, 285 U. S. 434, involved a provision of the California Constitution that directors of corporations should be liable to the creditors for all moneys embezzled or misappropriated by the officers. This Court held that a repeal of the provision while creditors were suing to enforce their right against a director could not destroy or impair that right. Speaking by Mr. Justice Sutherland, the Court said at pp. 442 and 448:

> "The right of this petitioner to enforce respondent's liability had become fully perfected and vested prior to the repeal of the liability provision. His cause of action was not *purely* statutory. It did not arise upon the constitutional rule of law, but upon the contractual liability created in pursuance of the rule. Although the latter derived its being from the former, it immediately acquired an independent existence competent to survive the destruction of the provision which gave it birth. The repeal put an end to the rule for the future, but it did not and could not destroy or impair the previously vested right of the creditor (which in every sense was a property right, *Ettor v. Tacoma*, 228 U. S. 148, 156; *Pritchard v. Norton*, 106 U. S. 124, 132) to enforce

his cause of action upon the contract. *Ettor v. Tacoma, supra; Hawthorne v. Calef,* 2 Wall. 10; *Steamship Co. v. Joliffe,* 2 Wall. 450; *Ochiltree v. Railroad Co.,* 21 Wall. 249, 252-253; *Harrison v. Remington Paper Co.,* 140 Fed. 385, 390 *et seq.; Knickerbocker Trust Co. v. Myers,* 133 Fed. 764, 767.

* * * * * * *

It is settled by decisions of this and other federal courts (*Ettor v. Tacoma,* and cases cited in connection therewith, *supra*) that, upon the facts here disclosed, a contractual obligation arose; and the right to enforce it, having become vested, comes within the protection of both the contract impairment clause in Art. 1, § 10, and the due process of law clause in the Fourteenth Amendment, of the Federal Constitution."

Other cases which condemn the retroactive application of legislation so as to deprive persons of rights vested before its enactment are *Osborn v. Nicholson,* 13 Wall. 654, 662; *Railroad Retirement Board v. Alton R. R. Co.,* 295 U. S. 330, 349-350, 354; *Asiatic Petroleum Co. v. Insular Collector,* 297 U. S. 666, 671.

Taxation, which is imposed in return for protection afforded by the sovereign, may frequently be retroactive. In this case the tax is the compensation paid by the subject for a benefit previously received. But even taxes may be held invalid under the due process clauses of the Fifth and Fourteenth Amendments as arbitrary if they are imposed retroactively on transactions as to which the taxpayers could not foresee that by engaging in them they would become liable for the taxes. *Nichols v. Coolidge,* 274 U. S. 531; *Blodgett v. Holden,* 275 U. S. 142; *Untermyer v. Anderson,* 276 U. S. 440; *Coolidge v.*

Long, 282 U. S. 582. See also *Levy v. Wardell,* 258 U. S. 542, 544-545; *Helvering v. Helmholz,* 296 U. S. 93, 97-98; *White v. Poor,* 296 U. S. 98, 102.

The prohibition of laws impairing the obligation of contracts in Article I, Section 10, of the Constitution is of course directed to State action and not to Congressional action, and yet it is clear, as Mr. Justice Sutherland said, delivering the opinion of the Court in *Continental Illinois Nat. Bank & Trust Co. v. Chicago, etc. Ry. Co.,* 294 U. S. 648, at p. 680, that Congress is "without power to impair the obligation of contracts by laws acting directly and independently to that end," *Cf. Perry v. United States,* 294 U. S. 330, 350-351. Between the due process clause and the obligation of contracts clause there is a close parallel. They derive from certain general principles which were expressed in the first decade under the Constitution in *Calder v. Bull,* 3 Dall. 386, by Mr. Justice Chase, at pp. 388-389:

> "The legislature may enjoin, permit, forbid and punish; they may declare new crimes; and establish rules of conduct for all its citizens in future cases; they may command what is right, and prohibit what is wrong; but they cannot change innocence into guilt; or punish innocence as a crime; or violate the right of an antecedent lawful private contract; or the right of private property. To maintain that our federal, or state legislature possesses such powers, if they had not been expressly restrained; would, in my opinion, be a political heresy, altogether inadmissible in our free republican governments."

It is submitted therefore that the following cases, condemning state legislation because of impairment of the obligation of contracts, are pertinent to the present

inquiry: *Fletcher v. Peck*, 6 Cranch 87, 135-136; *Von Hoffman v. City of Quincy*, 4 Wall. 535, 552-554; *Edwards v. Kearzey*, 96 U. S. 595, 600, 602; *Worthen Co. v. Kavanaugh*, 295 U. S. 56, 60.

Government's Cases on Retroactivity.

The Government, in its brief (pp. 67-70), relied on *Calhoun v. Massie*, 253 U. S. 170; *Norman v. Baltimore & Ohio R. R. Co.*, 294 U. S. 240; and *Philadelphia, etc. R. R. Co. v. Schubert*, 224 U. S. 603, in support of its contention that the Act may properly apply to royalties accruing prior to its passage.

In *Calhoun v. Massie, supra*, the defendant had employed the plaintiff as his attorney to prosecute a claim against the Government for property taken during the Civil War and agreed to pay him a sum equal to fifty per cent. of the amount which might be collected. The plaintiff prosecuted the defendant's claim, which was allowed and for which an appropriation was made by an Act which provided that no part of any item appropriated in excess of twenty per cent. should be paid to or received by any agent or attorney on account of services rendered in connection with the claim, and made it a misdemeanor for any agent or attorney to receive any sum exceeding that part of any item appropriated on account of such services, any contract to the contrary notwithstanding. The Government paid twenty per cent. of the claim to the plaintiff, the other eighty per cent. to the defendant. The plaintiff brought suit in a state court to recover a further sum equal to thirty per cent. of the claim. A demurrer to his declaration was sustained against a contention that the Act of Congress deprived him of liberty and property guaranteed by the Fifth Amendment. This Court, by five judges to four,

affirmed the judgment, saying by Mr. Justice Brandeis at p. 176:

> "At the time when the contract was entered into there was no legislation general or special which conferred upon Massie any right of recovery even if he should establish to the satisfaction of Congress that his claim was equitable. A statute making an appropriation to pay the claim was thus a condition precedent to liability on the part of Massie to Calhoun; and the thing contracted for was Calhoun's aid in securing its enactment. The aid was to be given by representing Massie before the Court of Claims. But both of the parties knew that, although Calhoun might have success before the Court of Claims, Congress would still be free to refuse both to recognize the claim as an equitable one and to make an appropriation for its payment. They also knew that if it concluded to grant relief, Congress was free to do so upon such conditions as it deemed proper."

In the *Calhoun* case there was not, as in the case at bar, the taking away from a private party of a right to recover an amount that was due when the act was passed. Before the act was passed there was no right on the part of the plaintiff to recover anything under his contingent fee contract; and the very statute that gave him the right to recover under that contract imposed a limitation upon his recovery. He had to take the bitter with the sweet. Moreover, there was of course no taking of any part of his right for the benefit of the United States, and he could not, like the petitioner in the case at bar, claim just compensation for property taken for public use.

Norman v. Baltimore & Ohio R. R. Co., supra, and *Philadelphia, etc. R. R. Co. v. Schubert, supra,* are sufficiently distinguished from the case at bar in our reply brief (pp. 12-14); but we may add to what is said there that *Winfree v. Northern Pacific Ry. Co.,* 227 U. S. 296, demonstrates that the Employers' Liability Act, the act enforced in the *Schubert* case, had no retroactive effect to impose liability by reason of facts that had occurred before its enactment.

The short distinction of all of these cases relied on by the Government to sustain its claim of retroactive application of the Royalty Adjustment Act is that in none of them did the Government take private property for public use without just compensation. As Mr. Justice Holmes said, speaking for the Court in *Pennsylvania Coal Co. v. Mahan,* 260 U. S. 393, at p. 415, "while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking." It does not help the Government's argument to call the Royalty Adjustment Act a regulatory act, for the regulation goes so far as to take the petitioner's right to royalties. The interference with private contracts which is permitted to the Government as an incident of a general public policy is denied to the Government when its effect is to take private contract rights without compensation. It is only in the case of a general public policy that Congress can effect any interference with private contract rights. When Congress takes private property without compensation it is not effectuating any general public policy; *Perry v. United States,* 294 U. S. 330, shows that public policy is directly contrary to such a taking.

May we add that if a contract to pay dollars in gold coin is subject to "a congenital infirmity" (*Norman v.*

Baltimore & Ohio R. R. Co., supra, at p. 308), such a contract is clearly distinguished from a contract to pay royalties to a patentee? "That a patent is property, protected against appropriation both by individuals and by government, has long been settled": *Hartford-Empire Co. v. United States,* 323 U. S. 386, at p. 415. And see fifteen other cases in this Court cited in our original brief (pp. 5-8).

The Act of 1910.

The Government has attempted to make some point of the fact that several decades before the Act in question was enacted the Act of June 25, 1910, 36 Stat. 851, 35 U.S.C. §68, and its amendment of 1918, relating to the expropriation of a license to use an *unlicensed* invention, were passed, and asserts that therefore patentees "were not entitled to assume that Congress would continue to allow agreements between private parties to fix * * * excessive charges to the Government for wartime use of the invention" (brief for the United States, p. 40). The Government neglects to state that the Act of 1910 as amended provides for the use for the benefit of the Government of unlicensed inventions, something quite distinct from the adjustment of royalties under license contracts. Moreover, that Act allowed the patentee to sue for just compensation whether the use was authorized or not. Does the fact that a mortgagee knows that real property can be taken by the Government under many statutes by the exercise of the right of eminent domain mean that his contractual right to interest on the mortgage is subject to some peculiar infirmity? Such a proposition is no more absurd than that advanced by the Government concerning the Royalty Adjustment Act.

The Royalty Adjustment Act should not be construed retroactively to apply to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act.

We submit that we have shown that if the Act is construed as applying to royalties due before its enactment it is unconstitutional under the Fifth Amendment. It seems to us, however, that there is no occasion for the Court to reach this question. A retrospective construction of the Act so as to make it apply to such royalties is not justified by its wording.

The Act is Prospective.

The Government in its argument for a retroactive construction points to Section 7, the pertinent portion of which reads as follows:

> "This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof."

It will be noted that the retroactive language does not refer to the period *before the enactment of the Act,* but to the period *before the date of the notice* that royalties are believed to be unreasonable or excessive.

When we turn to Section 1 of the Act we find that it is to take effect only from the date of its enactment, for it states that "whenever an invention, whether patented or unpatented, *shall* be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder," the royalties may be adjusted. The Act says nothing about inventions which in the *past* had been manufactured, used, sold, or otherwise disposed of for the United States.

Section 1 and Section 7 do not conflict in any way. It is obvious from the two sections that Congress intended that the Act should apply to royalties which were due for uses under the license after the date of the Act and which were not paid before the effective date of the notice. Congress desired that royalties accruing during the period between those dates should be subject to adjustment. It did not intend to make royalties that accrued before the enactment of the Act subject to adjustment.

If Congress had intended to adjust royalties due before the enactment of the Act, why in Section 2, in allowing compensation to the licensor, did it provide compensation, "taking into account the conditions of wartime production"? In the case at bar, as in many other cases that must have been in the contemplation of Congress during the first year of the war, there were royalties unpaid at the date of enactment of the Act which had become due before the United States was at war. "Wartime production" obviously was not a phrase applicable to all cases of royalties due for manufacture prior to the enactment of the Act. On the other hand, it was applicable to all cases of royalties due for manufacture after the passage of the Act and until six months

after the termination of the war. It would seem clear that Congress contemplated that the Act would cover only the latter class of royalties.

Cases Against Retroactive Application.

Since the Act does not specifically state that it is to be applied retroactively to royalties due before its enactment, it cannot be held to do so, under a rule of construction which was laid down as early as 1806.

Mr. Justice Paterson, in *United States v. Heth,* 3 Cranch 399, said at p. 413:

> "Words in a statute ought not to have a retrospective operation, unless they are so clear, strong and imperative, that no other meaning can be annexed to them, or unless the intention of the legislature cannot be otherwise satisfied. This rule ought especially to be adhered to, when such a construction will alter the pre-existing situation of parties, or will affect or interfere with their antecedent rights, services and remuneration; which is so obviously improper, that nothing ought to uphold and vindicate the interpretation, but the unequivocal and inflexible import of the terms, and the manifest intention of the legislature."

Mr. Chief Justice Marshall, delivering the opinion of the Court in *Reynolds v. McArthur,* 2 Pet. 417, said at p. 434:

> "It is a principle which has always been held sacred in the United States, that laws by which human action is to be regulated, look forwards, not backwards; and are never to be construed retrospectively, unless the language of the act shall render such construction indispensable. No words are

found in the act of 1818 which render this odious construction indispensable."

Mr. Justice Daniel, delivering the opinion of the Court in *Murray v. Gibson,* 15 How. 421, said at p. 423:

> "As a general rule for the interpretation of statutes, it may be laid down, that they never should be allowed a retroactive operation where this is not required by express command or by necessary and unavoidable implication. Without such command or implication they speak and operate upon the future only. Especially should this rule of interpretation prevail, where the effect and operation of a law are designed, apart from the intrinsic merits of the rights of parties, to restrict the assertion of those rights."

Does not this language particularly fit the case at bar, where the assertion of the petitioner's rights is so restricted that if the Government has its way they will be taken away altogether?

Southwestern Coal Co. v. McBride, 185 U. S. 499, involved the question whether an Act of Congress known as the Curtis Act operated to deprive the lessors of coal mines in the Choctaw Nation of the royalties due and owing to them for coal mined prior to the date of the approval of the Act. The Act provided that it should be unlawful for any person after its passage (with exceptions not material) to receive any royalty on coal or any other kind of property belonging to any tribe in the Indian Territory, or for anyone to pay to any individual any such royalty, but such royalties thereafter payable to the tribe should be paid into the Treasury of the United States to the credit of the tribe. The Court held that the Act did not deprive the lessors of the royalties

due and owing prior to its approval, saying, in a unanimous opinion by Mr. Justice White, at pp. 503-504:

"On the part of the appellants it is contended that the section in question is retrospective in its operation and inhibits the collection of royalties due and owing at the time of the approval of the Curtis Act, even though such royalties, had the statute in question not been passed, might lawfully have been collected by the lessors to whom it had been agreed the same should be paid. The Circuit Court of Appeals, however, sustained the contention that the provisions of the section in question had only a prospective operation, and in so doing we think no error was committed. We adopt the reasoning of the court below on the subject. The court said (104 Fed. Rep. 473):

'The function of the legislature is to prescribe rules to operate upon the actions and rights of citizens in the future. While, in the absence of a constitutional inhibition, the legislature may give to some of its acts a retrospective operation, the intention to do so must be clearly expressed, or necessarily implied from what is expressed; and, assuming the legislature to possess the power, its act will not be construed to impair or destroy a vested right under a valid contract unless it is so framed as to preclude any other interpretation. If Congress had intended to deprive lessors of the royalties due and owing to them at the date of the act it would have used appropriate language to express that intention, and would necessarily have made some provision for the disposition of such royalties. But it is clear from the language of the act that it does not deal with royalties already paid, or already due

> and owing to lessors under leases for coal already mined. * * * Congress, by the Curtis Act, neither attempted nor intended to interfere with the rights of lessors to royalties due them under their leases at the date of the passage of the act.'"

Shwab v. Doyle, 258 U. S. 529, involved the Revenue Act of 1916, which, in part, taxed the transfer of net estates

> "to the extent of any interest therein of which the decedent has at any time made a transfer, or with respect to which he has created a trust, in contemplation of or intended to take effect in possession or enjoyment at or after his death, except in case of a bona fide sale for a fair consideration in money or money's worth. Any transfer of a material part of his property in the nature of a final disposition or distribution thereof, made by the decedent within two years prior to his death without such a consideration, shall, unless shown to the contrary, be deemed to have been made in contemplation of death within the meaning of this title; * * *"

The Court held that the Act did not apply to a gift in trust consummated before its passage, saying by Mr. Justice McKenna at p. 534:

> "The initial admonition is that laws are not to be considered as applying to cases which arose before their passage unless that intention be clearly declared. 1 Kent 455; *Eidman v. Martinez*, 184 U. S. 578; *White v. United States*, 191 U. S. 545; *Gould v. Gould*, 245 U. S. 151; Story, Const., § 1398. The comment of Story is, 'retrospective laws are, indeed, generally unjust; and, as has been forcibly said,

neither accord with sound legislation nor with the fundamental principles of the social compact.'

"There is absolute prohibition against them when their purpose is punitive; they then being denominated *ex post facto* laws. It is the sense of the situation that that which impels prohibition in such case exacts clearness of declaration when burdens are imposed upon completed and remote transactions, or consequences given to them of which there could have been no foresight or contemplation when they were designed and consummated."

Since this Court construed the language of the Estate Tax Act of 1916 not to operate retrospectively, the Royalty Adjustment Act should be construed not to apply to royalties accrued at the time of its passage. The retroactive sentence in Section 7 can easily be interpreted as referring only to the time between the passage of the Act and the notice sent to a licensor.

In the latest case dealing with the subject the Court quite as clearly followed the rule against the application of the statute involved in the case at bar to royalties due before its enactment as it has done for the past one hundred and forty years. In *Claridge Apartments Co. v. Commissioner of Internal Revenue,* 323 U. S. 141, the Court said, in a unanimous opinion by Mr. Justice Rutledge, at p. 164:

"Retroactivity, even where permissible, is not favored, except upon the clearest mandate. It is the normal and usual function of legislation to discriminate between closed transactions and future ones or others pending but not completed. The discrimination which the Government fears will follow from acceptance of the taxpayer's view admittedly

will result. But it is one consistent with the normal consequences of legislation in the drawing of a line between the past or the present and the future."

To a like effect are the following cases: *Ladiga v. Roland,* 2 How. 581, 589; *McEwen v. Den,* 24 How. 242, 244; *Harvey v. Tyler,* 2 Wall. 328, 347; *United States v. Alexander,* 12 Wall. 177, 179; *Sohn v. Waterson,* 17 Wall. 596, 598-599; *Auffm'ordt v. Rasin,* 102 U. S. 620, 622-623; *Chew Heong v. United States,* 112 U. S. 536, 559; *United States v. Burr,* 159 U. S. 78, 82-83; *White v. United States,* 191 U. S. 545, 552; *Herrick v. Boquillas Land and Cattle Co.,* 200 U. S. 96, 102; *United States v. American Sugar Refining Co.,* 202 U. S. 563, 576-577; *United States Fidelity and Guaranty Co. v. United States,* 209 U. S. 306, 314; *Winfree v. Northern Pacific Ry. Co.,* 227 U. S. 296, 301; *Union Pacific R. R. Co. v. Laramie Stock Yards Co.,* 231 U. S. 190, 199; *Cameron v. United States,* 231 U. S. 710, 720; *Holt v. Henley,* 232 U. S. 637, 639-640; *Lynch v. Turrish,* 247 U. S. 221, 230; *Levy v. Wardell,* 258 U. S. 542, 544; *Knox v. McElligott,* 258 U. S. 546, 548-549; *Addy Co. v. United States,* 264 U. S. 239, 244-245; *Fullerton-Krueger Lumber Co. v. Northern Pacific Ry. Co.,* 266 U. S. 435, 437; *Lewellyn v. Frick,* 268 U. S. 238, 251-252; *United States v. St. Louis, etc. Ry. Co.,* 270 U. S. 1, 3, 4; *United States v. Magnolia Petroleum Co.,* 276 U. S. 160, 162-163; *Russell v. United States,* 278 U. S. 181, 187-188; *Brewster v. Gage,* 280 U. S. 327, 337; *Miller v. United States,* 294 U. S. 435, 439; *Hassett v. Welch,* 303 U. S. 303, 314; *Colgate-Palmolive-Peet Co. v. United States,* 320 U. S. 422, 424.

In view of the overwhelming body of authority condemning the retroactive application of statutes so as to take away pre-existing rights, we submit that the Roy-

alty Adjustment Act should not be construed to apply to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the enactment of the Act. If the Court should hold that the Act should be so construed, we submit that as so applied it would be unconstitutional under the due process clause of the Fifth Amendment.

1(b). The Royalty Adjustment Act is unconstitutional under the Fifth Amendment as applied to royalties due from respondent to petitioner for the patented devices manufactured, sold, and delivered to the Government before the promulgation of the departmental royalty order.

Devices Delivered Before Promulgation of Order.

Turning now to the royalties which became due between the date of the Act's passage and the date of the Royalty Adjustment Order, but were not paid at the date of the Order, little more need be said than what has already been said concerning royalties due before the enactment of the Act. The right to these later royalties was completely vested before the order sought to affect it. Even under the Government's "new license" and "war-powers regulation" theories, the taking of this right also was simply the taking of a right to money. As in the case of a taking of royalties accrued before the Act's passage, the taking of these royalties pursuant to the Act and Order was a violation not only of the just compensation clause but also of the due process clause of the Fifth Amendment. All that has already been said in this brief, except for the immediately preceding sec-

tion as to non-retroactive construction of the Act, applies equally well to these royalties.

It cannot be contended that the fact that the Act had been passed before the right to these royalties accrued makes the right any the less certain, absolute and vested. The Act, in Section 1, attempts to regulate the licensor's reward where there are royalties "the rates or amounts of which are *believed* to be unreasonable or excessive by the head of the department or agency * * *" (Italics ours.) Until the department head issues his order the licensor has no way of knowing what belief, if any, the department head holds concerning his royalty rate. In practice, indeed, the department head (or his authorized delegate) will ordinarily hold no belief on the matter until called upon to consider and decide upon a proposed reduction of royalties. Regulation based upon a belief of unreasonableness or excessiveness and affecting transactions taking place at a time when such belief was unascertainable and as yet unformed is just as retroactive and improper as the regulation of royalties which accrued before the passage of the Act itself. The Royalty Adjustment Act should not be permitted to accomplish such regulation, which is much broader than the regulation attempted by any of the wartime price-fixing acts.

Congress's Distinction as to Date of Notice.

It would appear, furthermore, that Congress did not intend that the Act should apply to royalties due at the time of the notice as to belief of unreasonableness or excessiveness of royalties if it could not apply constitutionally to royalties due at the time of enactment. In Section 7, the applicability of the Act is stated in two separate sentences. The first sentence applies it to

royalties on supplies, equipment, or materials to be delivered *after* the effective date of the *notice*. The second sentence applies it to royalties on supplies, equipment, or materials already delivered, and which have not been paid, *prior to* the effective date of the *notice*. The reason for putting these applicability provisions in two sentences instead of one was obviously to save the first, under the separability clause in Section 10, in case the second should be unconstitutional. Congress thus indicated its desire to have the applicability of the Act to royalties between the date of enactment and the date of the notice stand or fall on the constitutionality or unconstitutionality of the application of the Act to royalties due at the date of enactment. If it had not wished to assent to this it would have used three sentences instead of two: one would have covered royalties from the date of the notice; another would have covered royalties from the date of enactment to the date of the notice; and the third would have covered royalties before the date of enactment.

Congress obviously considered it more just to draw the line, if a line were to be drawn, at the date of the notice rather than at the date of enactment. Evidence of this is found in the fact that when the original bill was amended to include the two sentences, one prospective and the other retrospective, "the effective date of this Act" was used as the division line between their respective coverages: Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d Sess.), pp. 6-7, 9. This was changed, in the bill ultimately enacted, to "the effective date of the notice": H. Rep. No. 2602 on S. 2794 (77th Cong., 2d Sess.), p. 2.

We submit, then, that the Act is unconstitutional if applied to royalties on articles delivered before the date

of the Order. But even if constitutional in this respect, it would still not apply to royalties on articles delivered before the date of the notice, because of the unconstitutionality of the application of the Act to pre-enactment royalties.

2. Section 2 of the Act, authorizing a suit to be brought in the Court of Claims or in a district court, does not save to petitioner any rights it may have to recover, in such a suit or otherwise, any of the royalties stipulated to be paid under its contract with respondent.

If, as we contend, the Act is unconstitutional, Section 2 of the Act falls with it. Its provisions for review of administrative fixing of royalties implement Section 1 and depend upon it. The Act being unconstitutional, petitioner's right to royalties is to be enforced against respondent, Timken-Detroit Axle Company, under the license contract.

Recovery Permissible Under the Act.

Section 2 cannot preserve and secure petitioner's rights because it contains within itself the very terms which like a cancer invalidate the whole Act. In providing for suit against the United States by an aggrieved licensor in the Court of Claims or a district court, the Act does not permit recovery of "royalties stipulated to be paid" under the contract but expressly provides for recovery on an entirely different basis. It permits petitioner to recover only "such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, *taking*

into account the conditions of wartime production." (Italics ours.) And it further states: "In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

If the Act were valid, the suit under Section 2 would be the only remedy available to petitioner. Section 1 prohibits a suit against the licensee, and states that the "licensor's sole and exclusive remedy," as to any royalties beyond those allowed in the order, is that provided for in Section 2. And petitioner's rights against the United States could be enforced only under the exact terms of Section 2.

The one and only remedy available to the petitioner under Section 2, viz., the suit against the United States, is inadequate because it does not permit the petitioner to recover its full contracted-for royalties. It limits just compensation to what is to be fixed in view of "the conditions of wartime production." It was, in fact, intended and designed to prevent collection by petitioner of just compensation, that is, the full royalties specified,—to give it less than its royalties under the contract.

Not only may a licensor's contract right to royalties be impaired under the Act, it may be taken away altogether, and in the instant situation the Government is attempting to do just that. For Royalty Adjustment Order W-3 declared that no royalties should be paid to the licensor under its contract, and Section 2 of the Act permits the United States to raise the defense that the licensor's patents are invalid when suit is brought by the petitioner in the Court of Claims. It has long been a rule of patent law that a licensee cannot contest the

validity of the patent under which he is licensed.* But the Act directs that the United States be allowed to plead the defense of invalidity. Consequently, there is a possibility that the petitioner may be shorn of its entire contract right to royalties.

Cases on Suits Against United States.

That the Court of Claims cannot give petitioner anything more than Section 2 allows clearly appears from a long line of cases which hold that suits against the Government can succeed only subject to the restrictions and limitations imposed by the Act of Congress permitting the remedy in derogation of sovereign immunity.

In *De Groot v. United States,* 5 Wall. 419, a claim against the Government had been referred by Act of

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* See cases cited in our original brief as *amici curiae* (p. 30). In the Government's brief on the original argument (pp. 48-49) reliance is placed on *Sola Electric Co. v. Jefferson Electric Co.*, 317 U. S. 173, for the proposition that estoppel of the respondent to plead invalidity of the patent should not be allowed to thwart the purpose of the Royalty Adjustment Act. But it is to be noted that *the United States under that Act does not assume the patent to be invalid, but the contrary,* in requiring the full amount of the royalties stipulated for in the contract to be paid either to the licensor or into the Treasury of the United States. It is only when the licensor sues the United States for just compensation for what has been taken from him by eminent domain that the United States endeavors to keep the royalties taken by it on the strength of an argument of invalidity of the patent. It is enough here to show that the licensee, as Judge Kirkpatrick held in the District Court, "is estopped to contest the validity of the patent" (R. 34). When the United States takes a contract right to recover royalties free from any defense of invalidity of the patent, it should give the value of that right.

Congress to the Secretary of War. He had made an award beyond the limits prescribed by Congress, and that body by resolution had cut off his authority and empowered the Court of Claims to make a new award. Mr. Justice Miller, delivering the Court's opinion affirming the smaller award made by the Court of Claims, said at pp. 431-433:

"If, therefore, the Court of Claims has the right to entertain jurisdiction of cases in which the United States is defendant, and to render judgment against that defendant, it is only by virtue of acts of Congress granting such jurisdiction, and it is limited precisely to such cases, both in regard to parties and to the cause of action, as Congress has prescribed.

"It is true that ordinarily, when we seek for the foundation of this jurisdiction, we look to the general laws creating the court, and defining causes of which it may have cognizance. But it is equally true that whenever Congress chooses to withdraw from that jurisdiction any class of cases which had before been committed to its control, as it has done more than once, it has the power to do so, or to prescribe the rule by which such cases may be determined. Its right to do this in regard to any particular case, as well as to a class of cases, must rest on the same foundation; and no reason can be perceived why Congress may not at any time withdraw a particular case from the cognizance of that court, or prescribe in such case the circumstances under which alone the court may render a judgment against the government.

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"The case being thus transferred from the Secretary of War to the Court of Claims, with a repeal of the resolution under which the Secretary had acted, must be considered as coming into that court with the limitations prescribed by that resolution. This shows very clearly that Congress intended that no judgment should be rendered against the government on the award of the Secretary of War, but that the examination to be made by the Court of Claims should be free from that embarrassment. Could that court entertain jurisdiction of the case, and violate this requirement?

"It is said by claimant that the case did not come into that court under that resolution, but was brought there by his own petition. But, however it may have come there, the rule prescribed by Congress adheres to it, if Congress had the right to prescribe it. Entertaining no doubt of the power of the legislative body to define the terms on which judgments may be rendered against the government as to classes of cases, or as to individual cases, we think the Court of Claims was bound to accept the resolution of February, 1861, as the law of the case in that court. The effect of this resolution on the award, if it should ever come in question in a court not limited by the restrictions which govern that court, we need not decide."

Schillinger v. United States, 155 U. S. 163, was a suit in the Court of Claims against the United States for the use of a patented invention by a government contractor. Mr. Justice Brewer, delivering the opinion of the Court, said at p. 166:

"The United States cannot be sued in their courts without their consent. and in granting such

consent Congress has an absolute discretion to specify the cases and contingencies in which the liability of the Government is submitted to the courts for judicial determination. Beyond the letter of such consent, the courts may not go, no matter how beneficial they may deem or in fact might be their possession of a larger jurisdiction over the liabilities of the Government."

The Court held that the claim sounded in tort and therefore recovery was not authorized under the Tucker Act of March 3, 1887, 24 Stat. 505, c. 359, which gave the Court of Claims jurisdiction over "All claims founded upon the Constitution of the United States or any law of Congress, except for pensions, or upon any regulation of an Executive Department, or upon any contract, expressed or implied, with the Government of the United States, or for damages, liquidated or unliquidated, in cases not sounding in tort, in respect of which claims the party would be entitled to redress against the United States either in a court of law, equity, or admiralty if the United States were suable * * *." In interpreting this provision the opinion said at p. 168:

"It is said that the Constitution forbids the taking of private property for public uses without just compensation; that therefore every appropriation of private property by any official to the uses of the government, no matter however wrongfully made, creates a claim founded upon the Constitution of the United States and within the letter of the grant in the act of 1887 of the jurisdiction to the Court of Claims. If that argument be good, it is equally good applied to every other provision of the Constitution as well as to every law of Congress. This prohibition of the taking of private property

for public use without compensation is no more sacred than that other constitutional provision that no person shall be deprived of life, liberty, or property without due process of law. Can it be that Congress intended that every wrongful arrest and detention of an individual, or seizure of his property by an officer of the government, should expose it to an action for damages in the Court of Claims? If any such breadth of jurisdiction was contemplated, language which had already been give a restrictive meaning would have been carefully avoided."

In *Price v. United States,* 174 U. S. 373, a case of claims for damage done by Indian tribes, the Court said by Mr. Justice Brewer at pp. 375-376:

"The right of the plaintiff to recover is a purely statutory right. The jurisdiction of the Court of Claims cannot be enlarged by implication. It matters not what may seem to this court equitable, or what obligation we may deem ought to be assumed by the Government, or the Indian tribe, whose members were guilty of this depredation, we cannot go beyond the language of the statute and impose a liability which the Government has not declared its willingness to assume. It is useless to cite all the authorities, for they are many, upon the proposition. It is an axiom of our jurisprudence. The Government is not liable to suit unless it consents thereto, and its liability in suit cannot be extended beyond the plain language of the statute authorizing it."

Mr. Justice Holmes, delivering the opinion of the Court in *Reid v. United States,* 211 U. S. 529, said at p. 538:

"Suits against the United States can be maintained, of course, only by permission of the United States, and in the manner and subject to the restrictions that it may see fit to impose."

Mr. Justice Brandeis, delivering the opinion of the Court in *United States v. Babcock,* 250 U. S. 328, said at p. 331:

"These general rules are well settled: (1) That the United States, when it creates rights in individuals against itself, is under no obligation to provide a remedy through the courts. *United States ex rel. Dunlap v. Black,* 128 U. S. 40; *Ex parte Atocha,* 17 Wall. 439; *Gordon v. United States,* 7 Wall. 188, 195; *DeGroot v. United States,* 5 Wall. 419, 431-433; *Comegys v. Vasse,* 1 Pet. 193, 212. (2) That where a statute creates a right and provides a special remedy, that remedy is exclusive. *Wilder Manufacturing Co. v. Corn Products Refining Co.,* 236 U. S. 165, 174-175; *Arnson v. Murphy,* 109 U. S. 238; *Barnet v. National Bank,* 98 U. S. 555, 558; *Farmers' & Mechanics' National Bank v. Dearing,* 91 U. S. 29, 35."

Like the foregoing cases, the following show that petitioner's remedy under the Royalty Adjustment Act is limited to the recovery, under the exact terms of Section 2, of what we have demonstrated in our original brief to be a fatally insufficient amount: *Nichols v. United States,* 7 Wall. 122, 126; *Elgee Cotton Cases,* 22 Wall. 180, 185-186; *McElrath v. United States,* 102 U. S. 426, 440; *United States v. Lee,* 106 U. S. 196, 205; *Arnson v. Murphy,* 109 U. S. 238, 243; *Great Falls Mfg. Co. v. Attorney General,* 124 U. S. 581, 598-600; *Juragua Iron Co. v. United States,* 212 U. S. 297, 302-303, 309; *Banco*

Mexicano de Commercio e Industria v. Deutsche Bank, 263 U. S. 591, 602-603; *Davis v. Donovan*, 265 U. S. 257, 263; *Nassau Smelting & Refining Works v. United States*, 266 U. S. 101, 107-108; *Luckenbach S. S. Co. v. United States*, 272 U. S. 533, 536; *Munro v. United States*, 303 U. S. 36, 41; *United States v. Sherwood*, 312 U. S. 584, 586.

The cases discussed and cited above support the following conclusions:

(1) The United States is amenable to suit only to the extent that it waives its immunity and only subject to the conditions which it attaches to such waiver.

(2) In the Court of Claims recovery can be had only within the specific limits prescribed by the act which authorizes recovery.

(3) When Congress in a statute creates a right against the United States and provides a special remedy, that remedy is exclusive.

The Royalty Adjustment Act takes away petitioner's right of action against Timken and gives it instead a different right, the right to sue in the Court of Claims. The remedy which it gives is exclusive. This exclusive remedy we have shown to be inadequate under the Fifth Amendment. The Royalty Adjustment Act gives a licensor something different from and far less than his contract rights when it takes the benefit of these rights for the United States. Since the Court of Claims cannot give a full and adequate remedy, the Act fails to satisfy the requirements of the Fifth Amendment.

It will hardly be argued that the Court of Claims can disregard the limits set by the Royalty Adjustment Act upon recovery by the petitioner and give it under some other act, such as the Tucker Act, the full com-

pensation guaranteed to it by the Constitution. No case holds that the Court of Claims can do so. In *United States v. Causby*, 66 S. Ct. 1062, it is true, that court was held to have jurisdiction to allow recovery for a taking of land by frequent flying of planes over it at low levels by the United States, and Mr. Justice Douglas, delivering the opinion of the Court, said at pp. 1068-1069:

> "If there is a taking, the claim is 'founded upon the Constitution' and within the jurisdiction of the Court of Claims to hear and determine. See Hollister v. Benedict & Burnham Mfg. Co., 113 U. S. 59, 67, 5 S. Ct. 717, 721, 28 L.Ed. 901; Hurley v. Kincaid, 285 U. S. 95, 104, 52 S. Ct. 267, 269, 76 L.Ed. 637; Yearsley v. W. A. Ross Construction Co., 309 U. S. 18, 21, 60 S. Ct. 413, 415, 84 L.Ed. 554."

It will be observed from an examination of each of the cases cited in the preceding sentence that the Court held that the Government had impliedly promised to pay just compensation for the property taken and that this implied promise was the basis for the remedy by suit in the Court of Claims. In the case at bar, however, by the Royalty Adjustment Act the Government has not promised to pay just compensation, but only just compensation taking into account conditions of wartime production, and subject to defenses which could not be asserted by the licensee. A promise to pay just compensation without restriction cannot be implied in the teeth of the restrictions imposed by the Act upon the payment of compensation.

The opinion in the *Causby* case cannot be construed to mean that under the Tucker Act an implied contract is not the necessary basis for a suit for compensation

for the taking of property. Certainly a tortious taking could not be the basis for such a suit. We submit that there was no intent to overrule *sub silentio* the doctrine of *Schillinger v. United States,* 155 U. S. 163, and the long line of cases following it, some of which are cited in the opinion of the Court, by Mr. Justice Brandeis, in *United States v. North American Transportation & Trading Co.,* 253 U. S. 330, at 335*.

We believe that what was meant in the *Causby* case by the treatment of the point as to jurisdiction—a point not fully argued in the briefs or elaborated upon in the opinion of the Court—was this: In that case the circumstances were such that if a taking existed there would be an implied contract to pay for the land, and therefore the owners of the land taken could enforce their claim "founded upon the Constitution" under the Tucker Act. The Court did not hold that the Tucker Act gives a right to recover for *any* denial of the guaranties of the Constitution. In any event, the decision

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* See also *Gibbons v. United States,* 8 Wall. 269, 274; *Langford v. United States,* 101 U. S. 341, 343-346; *Hill v. United States,* 149 U. S. 593, 598-599; *United States v. Berdan Fire-Arms Mfg. Co.,* 156 U. S. 552, 566; *Belknap v. Schild,* 161 U. S. 10, 17; *Russell v. United States,* 182 U. S. 516, 530; *Ribas y Hijo v. United States,* 194 U. S. 315, 323; *Harley v. United States,* 198 U. S. 229, 234; *Juragua Iron Co. v. United States,* 212 U. S. 297, 302-303, 309; *Crozier v. Krupp Aktiengesellschaft,* 224 U. S. 290, 303-304; *United States v. Societe Anonyme des Anciens Etablissements Cail,* 224 U. S. 309, 311; *Peabody v. United States,* 231 U. S. 530, 539; *Farnham v. United States,* 240 U. S. 537, 540; *Cramp & Sons Ship & Engine Bldg. Co. v. International Curtis Marine Turbine Co.,* 246 U. S. 28, 39-41; *Tempel v. United States,* 248 U. S. 121, 129-130; *Bliss Co. v. United States,* 253 U. S. 187, 190-191; *Lynch v. United States,* 292 U. S. 571, 582.

was simply an interpretation of the Act under which suit had been brought. It did not hold that the Court of Claims could disregard limitations imposed by an Act of Congress. It could not follow from this decision that if the petitioner in the case at bar were to sue in the Court of Claims it could recover more than the limited amount allowed by the Royalty Adjustment Act. The Court of Claims could let it recover only under that Act. If, as we contend, that Act is unconstitutional, it could not recover under the Tucker Act or any other Act; for, except for the Royalty Adjustment Act, petitioner's right is simply a common law right of action against Timken.

Moreover, if the petitioner should sue under the Royalty Adjustment Act in the Court of Claims or a district court, its recovery would not only be limited to less than just compensation, but the petitioner would be foreclosed from raising the question of the unconstitutionality of the Act under which it had sued. This is the obvious consequence of the cases above cited. See in particular *Great Falls Mfg. Co. v. Attorney General,* 124 U. S. 581, where the Court held that the plaintiff, by the very act of suing in the Court of Claims under an Act of Congress, voluntarily accepted the provisions of the Act and the offer of the Government to have the amount of its compensation fixed by that court. The Court said, in an opinion by Mr. Justice Harlan, at p. 600:

> "If the act of the Secretary of War in taking possession of the property was in violation of law, neither he nor his agents could rightfully hold possession against the plaintiff; in which case, the plaintiff might have stood upon its rights, under the Constitution, and invoked judicial authority for such

protection as the law would afford against the unauthorized acts of public officers. But the plaintiff chose to acquiesce in the taking of its property for public use, and to accept the offer of the Government to have the amount of compensation fixed by the Court of Claims, according to its peculiar modes of procedure."

If the Court of Claims could award the petitioner the full amount of its just compensation, the Royalty Adjustment Act would be frustrated, because the purpose of that Act is to reduce the royalties to be paid under the contract to the petitioner and to require that the amount by which they are reduced be paid to the United States. Yet to give the petitioner less than the full amount of the royalties stipulated would be unconstitutional. Since any judgment of the Court of Claims would have the effect either of rendering the Act nugatory or of unconstitutionally denying the petitioner its right to just compensation, the only way to avoid unnecessary expense and fruitless circuity of action is for this Court to pass on the question of the constitutionality of the Act. We submit that it should hold that the Act is invalid under the Fifth Amendment.

Respectfully submitted,

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